

FISCAL NOTE

Bill #: HB0398

Title: Revise endowment tax credit

Primary Sponsor: Balyeat, J

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Revenue:		
General Fund	\$1,130,000	\$227,000
Net Impact on General Fund Balance:	\$1,130,000	\$227,000

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. This act is effective July 1, 2003; and applies to charitable gifts made on or after July 1, 2003.
2. This bill repeals Sections 2, 4, 6, and 8 of Chapter 24, Special Laws of August 2002 (SB15, 2002 Special Session). This repeals the provisions of current law that would have increased the charitable endowment tax credit to 50% of value up to a maximum of \$13,400 for “planned gifts”, and 26.7% of value up to a maximum of \$13,400 for outright gifts, for the period July 1, 2003 through April 30, 2004. As a result, the tax parameters of this credit remain at the levels established in SB15 of 30% of value up to a maximum of \$6,600 for planned gifts, and 13.3% of value up to a maximum of \$6,600 for outright gifts.
3. By itself, repealing Sections 2, 4, 6, and 8 of Chapter 24, Special Laws of August 2002 will reduce the amount of credit claimed (or, alternatively, increase general fund revenue) by \$2.604 million in fiscal 2004 and \$1.849 million in fiscal 2005. (DOR impact simulation based on the population of charitable endowment tax credit returns in tax year 2001).
4. The bill expands eligibility for the credit by providing that a student scholarship program or other student financial assistance program of a public or private, nonprofit elementary school or high school in Montana is considered to be a qualified endowment. The bill further provides that *any* form of contribution to a student scholarship program or other student financial assistance program is considered a “planned gift”. Under current law, contributions of cash qualify for the credit only if given by entities other than individuals, and are considered to be “outright “gifts. The distinction is relevant in that the percentage credit for planned gifts (30%) is larger than the percentage credit for outright gifts (13.3%).
5. The Department of Revenue has no reliable means of estimating the number of individuals, organizations, or businesses that will make cash or other contributions to student scholarship programs or other student

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(continued)

financial assistance programs of a public or private, nonprofit elementary school or high school in Montana. Nor is there any means of reliably estimating the size of those contributions.

6. In tax year 2001, a total of 1,892 full-year resident individual income tax filers claimed a total of \$7,410,957 in charitable endowment credit, for an average credit of about \$3,900. For fiscal year 2004, a total of 668 taxpayers would have to claim a credit of this amount for contributions to scholarship or other student financial assistance programs to offset the additional general fund revenue generated under assumptions 1 through 3. For fiscal year 2005, this number drops to 474 taxpayers.
7. For the purposes of this fiscal note, it is assumed that the ability to claim the credit for contributions to student scholarship programs or other student financial assistance programs will increase utilization of the credit by 20% above the tax year 2001 level of 1,892 taxpayers; for tax year 2004 a total of 378 taxpayers will take an average credit of \$3,900 for a total credit of \$1.474 million.
8. The credit related to contributions to student scholarship programs or other student financial assistance programs will grow 10% per year; resulting in additional credit in fiscal 2005 of \$1.622 million.
9. The net impact on general fund revenues is an increase in revenue in fiscal year 2004 of \$1.130 million (\$2.604 million - \$1.474 million = \$1.130 million); and an increase in revenue in fiscal year 2005 of \$227,000 (\$1.849 million - \$1.622 million = \$0.227 million).
10. There are no administrative impacts associated with this bill.

FISCAL IMPACT:

Revenues:

General Fund (01)

FY 2004

Difference

\$1,130,000

FY 2005

Difference

\$227,000

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)

\$1,130,000

\$227,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

No impact.

LONG-RANGE IMPACTS:

Under this bill, the reduction in credit claimed (or, alternatively, the increase in general fund revenue) from repealing Sections 2, 4, 6, and 8 of Chapter 24, Special Laws of August 2002 is \$1.435 million in fiscal 2006; and \$1.507 in fiscal 2007. This is offset by increases in credits allowed for student scholarship programs. Future impact on general fund revenues will depend on growth in the use of the credits.

The legislation provides financial opportunities for families with children enrolled in the public school system to enroll their children in private, nonprofit schools. In the longer-term, the movement of students from public schools to private schools would lower the cost of state support for public schools.

TECHNICAL NOTES:

1. There is a question of whether it is constitutional to provide a tax credit for contributions to sectarian educational programs.